IMAX CORPORATION 1996 ANNUAL REPORT

IMAX®

CHANGING THE WORLD OF ENTERTAINMENT

IMAX: Bigger than your imagination
From the upcoming 15/70 format film *Everest.*
Produced by MacGillivray Freeman Films.
Sponsored in part by the Everest Film Network.

an eight-story
IMAX screen

IMAX provides the most powerful, involving film experience ever invented. Images of unsurpassed size, clarity and impact project onto giant screens, reaching out to capture viewers with the unique sensation of really being there.

a house

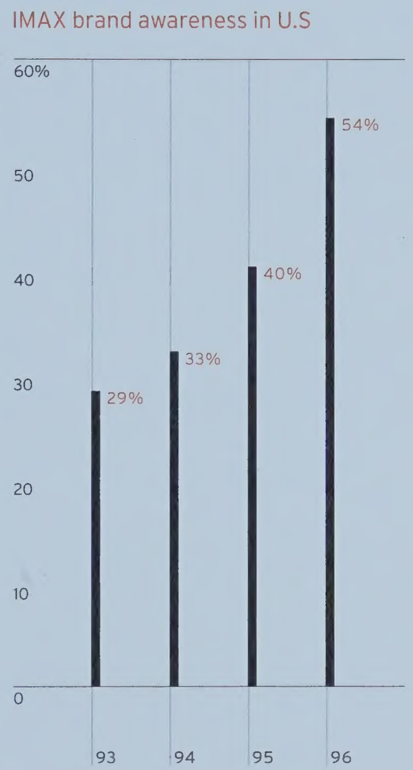
brand

"Most multiplexes are probably going to end up with one of those [IMAX theatres], and you're going to see more people making movies for those screens."

GEORGE LUCAS, Wired Magazine, February 1997

Our research* shows that recognition of the IMAX brand name in the United States increased 35% in 1996. Imax's image as a unique out-of-home entertainment leader will be enhanced by a brand awareness program currently being developed.

*Angus Reid Group poll 10/1996



Message to Shareholders /By all measures, 1996 was a record breaking year for Imax Corporation. Our strong financial performance, coupled with the growing impact of the IMAX brand name and our penetration of more commercial markets, has set the stage for future growth in 1997 and beyond.

One of the Company's greatest assets is the power of the IMAX brand name. Imax has built tremendous equity in its brand and is committed to strengthening the brand as a cornerstone of the Company's future growth. The benefits of a strong brand are clear. A strong IMAX brand is a competitive advantage for the Company because it helps to generate higher attendance and profits for theatres which in turn stimulates new theatre construction and attracts new filmmakers and creative content to the 15/70 film format.

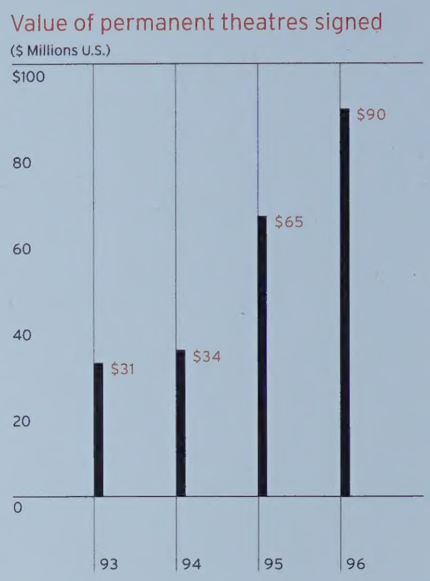
Our annual research showed that recognition of the IMAX brand in the United States jumped to 54% in 1996 from 40% in 1995 and 33% in 1994. This survey also demonstrated the overwhelming appeal of the IMAX experience as 97% of the participants said that they would recommend it to a friend. To build upon these very powerful findings, Imax is developing an aggressive, comprehensive branding program to further position the Company as a leader in high-quality, out-of-home family entertainment.

In 1996, we experienced another dramatic increase in IMAX theatre system signings. Contracts for 29 new theatre systems with a value of $89.6 million were signed in 1996. This represents a 39% increase over 1995 which was the Company's previous best year. The growth in signings has been driven by three primary areas: commercial theatres, IMAX 3D theatres and international expansion.

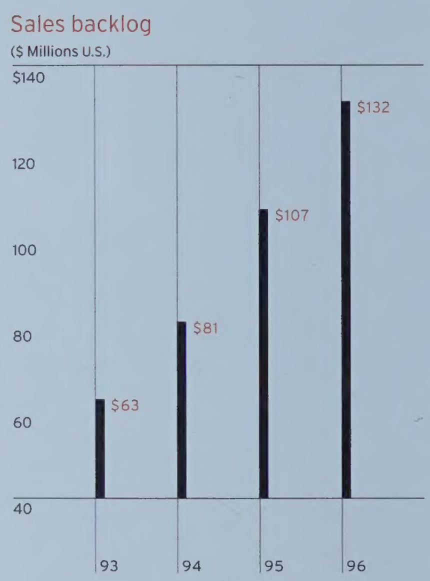
Last year, 65% of our theatre signings were for commercial locations. In comparison only 25% of our existing theatre network is comprised of commercial theatres. Leading the charge in the commercial arena has been our relationships with the major theatre chains. We currently have agreements with Sony Theatres, Edwards Cinemas, Cineplex Odeon and Famous Players in North America and Bofiscope/UFA and Gaumont in Europe. In 1997, we will be focusing our marketing efforts to attract additional cinema operators throughout the world to the IMAX medium.

The popularity of the IMAX 3D medium continues to grow. IMAX 3D system signings represented 75% of our total theatre signings in 1996 versus only 18% of the existing theatre

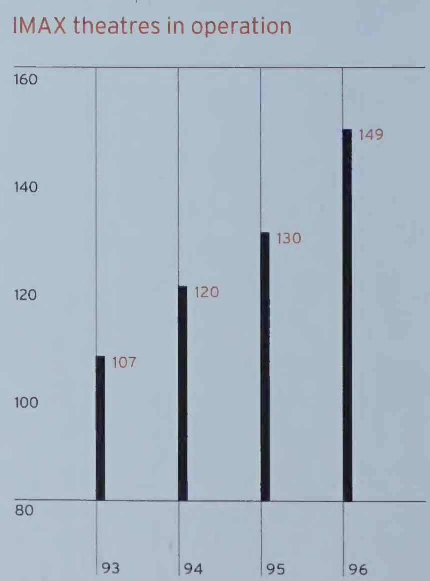
The value of our theatre contract signings has grown dramatically – driven by the demand for commercial IMAX theatres and IMAX 3D theatres.



As the pace of new theatre signings has gained momentum, so has our sales backlog. Sales backlog provides visibility of Imax's revenues in the years ahead.



At December 31, 1996, the IMAX experience was available at 149 theatres in 22 countries. The pace of expansion continues to accelerate.



In 1996, over 65% of IMAX theatre signings were for commercial theatres. Commercial IMAX theatres around the world are drawing record crowds, like the Tokyo IMAX 3D theatre opened this year by Sony.

Imax continues to penetrate international markets. Our office in Singapore has opened up a significant number of Asia Pacific opportunities, one of which, the Panasonic IMAX theatre at Darling Harbour, Sydney, Australia, opened in Fall, 1996.

Major movie operators around the world such as Sony, Edwards, Gaumont, Famous Players, Cineplex Odeon and Bofiscope/UFA have signed agreements with Imax. Many look to an IMAX theatre to increase traffic at their multiplexes.

To generate stronger recurring revenues, Imax is beginning to own and operate IMAX theatres. Our first, at Circus Circus Enterprises' Luxor Las Vegas Hotel and Casino, opened in December, 1996.

IMAX theatres are like no others. Audiences describe their experience as “Awesome”, “Thrilling”, and “Larger-than-Life”.


experience
"The images are so real it puts you into the movie,
not just watching it! A film experience that transcends films!"
LUIS RIVERA, at the Sony IMAX Theatre in New York, March 1997

network. The number of IMAX 3D theatres in operation jumped from 14 in 1995 to 27 in 1996 and there were 27 more IMAX 3D theatre systems in backlog at year end.

Internationally, we continue to open up new territories. In late 1995, we opened a sales office in Singapore to focus on the burgeoning Asia Pacific market. Since that time, we have signed contracts for seven IMAX theatres and 13 IMAX *Ridefilm* theatres in that region. In 1997, we will continue to focus on the underpenetrated areas of the world. Currently, 70% of the IMAX theatres are located in North America and Japan which represent only 10% of the world's population. There are no IMAX theatres in China where our culturally neutral films are very appealing. There are no IMAX theatres in India, South America, the Middle East, Eastern Europe or Russia. There is one IMAX theatre in Africa. Even in Europe where we have made progress recently, there are still no IMAX theatres in Greece or Italy. We will be opening our first IMAX theatre in London this Spring which will be only our second theatre in all of the United Kingdom. There are still tremendous opportunities for expansion.

In 1996, we opened our first owned and operated IMAX theatre at the Luxor Las Vegas Hotel and Casino in partnership with Circus Circus Enterprises. We have four more owned and operated locations under development including an IMAX 3D theatre in Toronto in partnership with Famous Players and two theatres we intend to co-own with Ogden Corporation — the first of up to 15 locations we intend to co-own together. The owned and operated theatre strategy should provide recurring revenues and cash flow to the Company and we expect will generate substantial rates of return.

On the film front, a number of new ground-breaking 15/70 format films were released in 1996, including *L5: First City In Space* and *Cosmic Voyage*, both of which feature state-of-the-art computer generated digital effects, and *Special Effects* which takes viewers behind the scenes of the special effects of films such as *Independence Day* and the *Star Wars Trilogy Special Edition*. Both *Cosmic Voyage* and *Special Effects* were recently nominated for an Oscar® as Best Documentary Short Subjects, which marks only the fourth time that 15/70 format films have

Unlocking the potential /It took 24 years to open the first 100 IMAX theatres. It will take only five years to open the second 100 theatres.

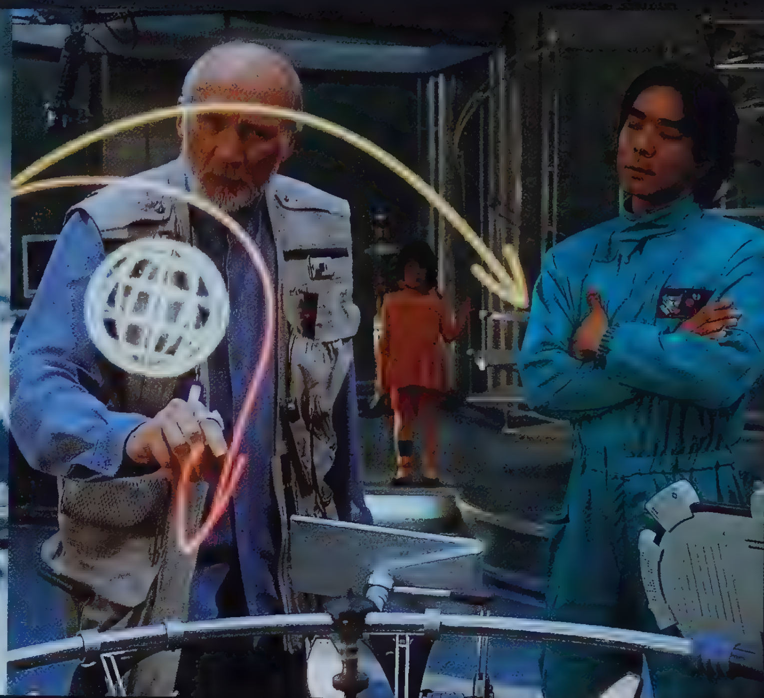
USA	71	Japan	18	Europe	23
Canada	15	Far East	9	Mexico	8
Australia	4	South Africa	1		

IMAX experiences transport you to places you've never been before

A world of opportunity

The Magic Of Flight is a fasten-your-seat-belt ride with the United States Navy's Blue Angels flight demonstration squadron, flying inside loops at 500 mph.

L5: First City In Space uses imagery from NASA's Jet Propulsion Laboratory and sophisticated computer graphics to depict life aboard Earth's first orbiting space city.



[illegible] is a high-impact, kinetic experience that combines an original score and [illegible] stunts in the streets of San Francisco to create a wild, slapstick IMAX [illegible] adventure.

Special Effects, a behind the scenes guided tour of the digital world of recent blockbuster films, was nominated for an Oscar® in 1997, along with another Imax-distributed film *Cosmic Voyage*.

been nominated for an Academy Award® and the first time that two 15/70 format films have been nominated in the same year.

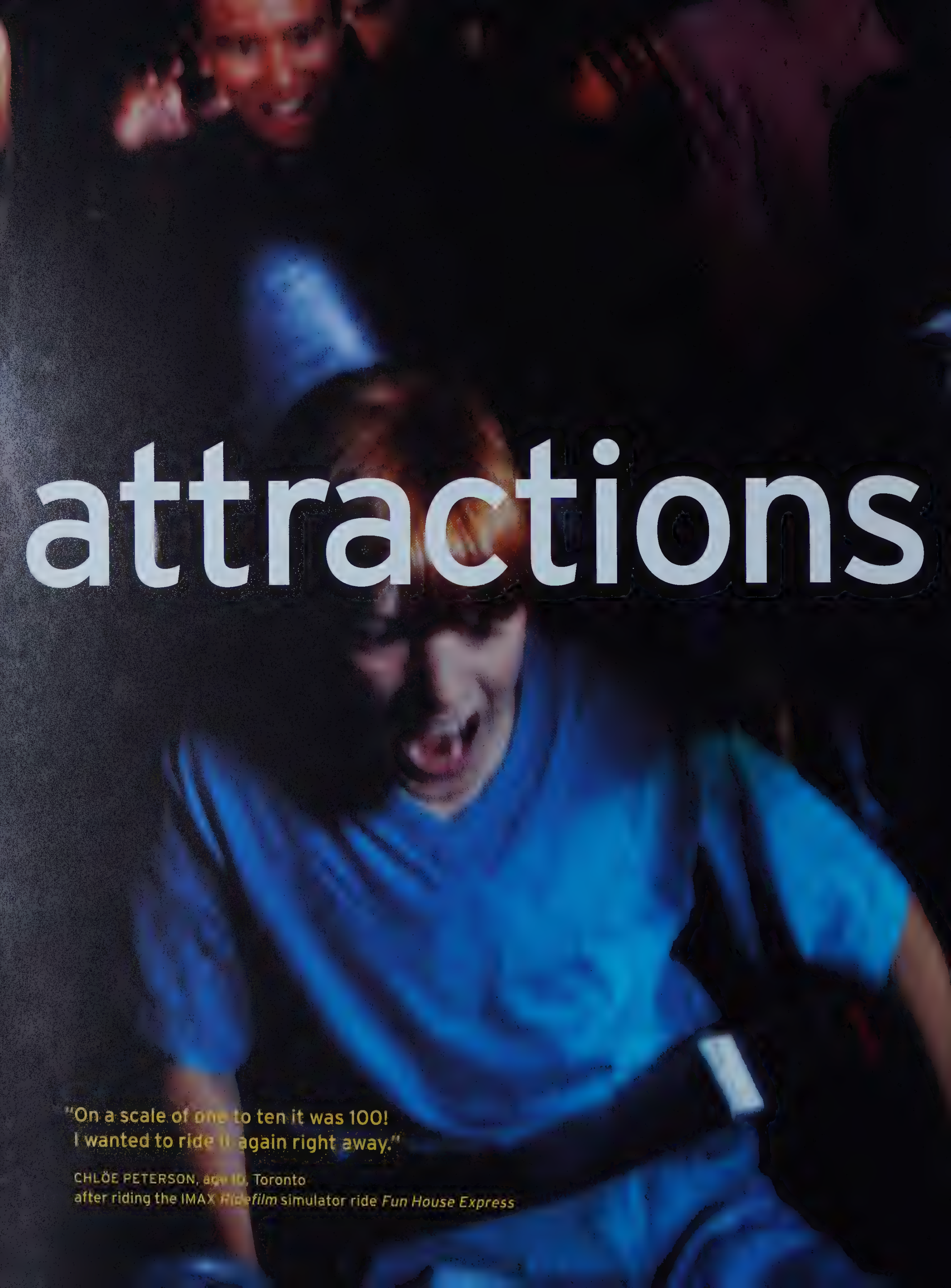
New film releases from Imax's Film Distribution department to watch for in 1997 include *Mission To Mir*, which features footage from the recent space shuttle hookups with the Russian Space Station Mir, as well as *Four Million Houseguests*, which brings the hidden world we live in to life through the magic of microphotography and IMAX 3D technology. At the end of 1996, there were eight 15/70 format films in production and more than 20 films in the pre-production and development stage. In 1997, we hope to be able to share with you some of the cutting-edge 3D animation projects we have been working on and we will continue to examine new technologies to expand the potential of the 15/70 format film medium.

We also made progress with our IMAX *Ridefilm* product in 1996. We opened nine new locations last year, bringing the number of IMAX *Ridefilm* systems in operation to 11, and signed contracts for 24 systems bringing our backlog to 29 systems. The increased number of IMAX *Ridefilm* deliveries in 1997 will help improve Ridefilm's financial performance. However we have yet to generate profits at Ridefilm and we remain cautiously optimistic about its prospects.

To ensure that we can comfortably fund our strategic expansion plans, Imax strengthened its balance sheet in 1996 and ended the year with more than $120 million in cash. This financial strength will allow us to invest in 15/70 format films, strategic joint ventures and our owned and operated theatre strategy.

We are off to a great start in 1997. In addition to our continuing business successes, Imax Corporation has been awarded this year's sole Oscar® for Scientific and Technical Achievement. This Academy Award® recognized Imax's innovation in creating and developing a method of filming and exhibiting large-format motion pictures. This marks only the 30th time in the Academy's 70-year history that an Oscar has been awarded in this category. This award is a tribute to the vision and hard work of the original inventors of the IMAX projection system as well as all of the Company's employees past and present. We share this award with them all.

As the words and pictures in this report cannot begin to convey the power of the IMAX experience, we encourage you to join the nearly 70 million people who will visit an IMAX theatre in 1997. A listing of



attractions

"On a scale of one to ten it was 100! I wanted to ride it again right away."

CHLÖE PETERSON, age 10, Toronto
after riding the IMAX *Ridefilm* simulator ride *Fun House Express*

This year nearly 70 million people will visit an IMAX theatre, adding to the more than 500 million people who have had an IMAX experience.

IMAX theatre locations is included with this report. You will learn that the IMAX theatre experience is something very special — the result of the dedication and efforts of Imax employees around the world. We thank them, as well as our theatre owners, business partners and you, our shareholders, for sharing a belief in the Imax vision.

February, 1997

Bradley J. Wechsler
Chairman and
Co-Chief Executive Officer

Richard L. Gelfond
Vice Chairman and
Co-Chief Executive Officer

Bradley J. Wechsler /*Chairman and Co-Chief Executive Officer* /Mr. Wechsler has been Chairman of Imax since he and Mr. Gelfond led its acquisition in March, 1994 and has been Co-Chief Executive Officer since May, 1996. Mr. Wechsler's background is in the entertainment industry with stints at Home Box Office, Silver Screen Partners and Columbia Pictures. In addition, Mr. Wechsler has sat on the boards of Metro-Goldwyn Mayer and Great American Communications Company.

Richard L. Gelfond /*Vice Chairman and Co-Chief Executive Officer* /Mr. Gelfond has been Vice Chairman of Imax since he and Mr. Wechsler led its acquisition in March, 1994 and has been Co-Chief Executive Officer since May, 1996. Mr. Gelfond has started and managed several companies and has significant experience in the financial, merchant banking and legal fields. In addition, Mr. Gelfond serves on the board of various corporate and philanthropic entities.

performance

Management's report to shareholders

Management is responsible for the preparation, integrity, presentation and consistency of financial information contained in this Annual Report. The financial statements and accompanying notes, prepared in accordance with United States generally accepted accounting principles, are considered by management to present fairly the Company's consolidated financial position, its results of operations and changes to its financial position. Management maintains the necessary system of internal controls to provide assurance that transactions are authorized, assets are safeguarded and records are properly maintained.

The Audit Committee meets regularly with the Company's management as well as its external auditors to review matters relating to the quality of financial reporting and internal accounting control and the nature, extent and results of the audit effort. In addition, this Committee is responsible for reviewing consolidated financial statements and reporting thereon to the Board of Directors.

Independent auditors appointed by the shareholders of the Company examine the consolidated financial statements in accordance with generally accepted auditing standards. Their report on the audited consolidated financial position and results of operations of the Company appears on page 26. The external auditors have free and independent access to the Audit Committee and meet with the Committee and with management to consider matters relating to financial presentation, internal controls and audit procedure.

Bradley J. Wechsler
Chairman and
Co-Chief Executive Officer

Richard L. Gelfond
Vice Chairman and
Co-Chief Executive Officer

John M. Davison
Executive Vice President, Operations and
Chief Financial Officer

Five year review

(In thousands of U.S. dollars except per share amounts)

	The Company			Predecessor Imax, historical	
	Year ended Dec. 31, 1996	Year ended Dec. 31, 1995	Dec. 31, 1994 Pro Forma[1]	Year ended Dec. 31, 1993	Year ended Dec. 31, 1992
Revenue					
Systems	$ 85,972	$ 51,968	$ 37,507	[illegible]	[illegible]
Films	28,367	28,835	30,885	29,454	[illegible]
Other	15,499	7,694	6,617	5,591	5,4[illegible]
Total revenue	129,838	88,497	75,009	72,698	54,[illegible]
Costs and expenses[2]	58,257	44,348	56,118	42,871	33,553
Gross margin	71,581	44,149	18,891	29,827	21,0[illegible]
Selling, general & administrative expenses[3]	29,495	[illegible]	[illegible]	[illegible]	[illegible]
Research & development[4]	2,493	2,808	4,563	2,262	1,74[illegible]
Amortization of intangibles	2,708	2,541	2,603	17	[illegible]
Earnings (loss) from operations	36,885	12,875	(10,247)	13,045	5,[illegible]
Interest income	5,797	3,377	1,794	17	[illegible]
Interest expense	(11,765)	(7,337)	(7,400)	(1,633)	(2,[illegible]
Foreign exchange gain (loss)	(337)		[illegible]		[illegible]
Earnings (loss) before taxes and minority interest	30,580	9,108	(16,391)	[illegible]	[illegible]
(Provision for) recovery of taxes	(13,579)	(5,458)	4,833	(5,22[illegible]	[illegible]
Earnings (loss) before minority interest	17,001	3,650	(11,558)	6,434	2[illegible]
Minority interest	(1,593)	—	—	—	—
Net earnings (loss)	$ 15,408	[illegible]	[illegible]	[illegible]	[illegible]
Net earnings (loss) per share	$ 1.01	[illegible]	[illegible]		
Systems and Other Data:					
Total systems signed[5]	29	[illegible]			
New theatres opened	21	[illegible]	[illegible]		[illegible]
Total theatres in operation	149	[illegible]	[illegible]		[illegible]
Total systems in sales backlog[6]	45	[illegible]	[illegible]	[illegible]	[illegible]
Revenue in sales backlog[7]	$ 131,835	$ 107,23[illegible]	[illegible]	[illegible]	[illegible]

[1] The Unaudited Pro Forma Consolidated Statement of Operations for the year ended December 31, 1994 gives effect to the issuance and sale of Senior Notes, the application of the net proceeds therefrom, the acquisition of Predecessor Imax and TCI, the equity conversions and the issuance of common shares (collectively the "transactions") as if the transactions had occurred on January 1, 1994.

[2] The costs and expenses for the years ended December 31, 1994, 1995 and 1996 include $9.3 million, $2.5 million and $1.9 million respectively, of non-recurring charges for the amortization of purchase accounting adjustments.

[3] The selling, general and administration expenses for the year ended December 31, 1994 include $1.1 million of non-recurring charges as a result of the transactions. Also included in the year ended December 31, 1994, 1995 and 1996, respectively, were $3.5 million, $4.3 million and $3.6 million respectively of costs related to Ridefilm.

[4] The research and development expenses for the year ended December 31, 1994 included a non-recurring charge of $2.4 million to reflect the write-off of purchased in-process research and development in connection with the acquisition of Ridefilm.

[5] Represents the number of theatre systems which were the subject of sale or lease agreements and agreements for owned and operated theatres entered into by the Company in the years indicated. The number of signings indicated for 1995 and 1996 include four and two theatre system upgrades, respectively; 1996 signings also include three owned and operated theatres.

[6] Systems in sales backlog in 1995 and 1996 include four and three system upgrades from IMAX to IMAX 3D.

[7] Represents the minimum revenue on signed contracts for the installation of theatre systems.

Management's discussion and analysis of financial condition and results of operations

1996 Highlights

The Company reported record earnings of $1.01 per share in 1996 versus $0.23 per share in 1995.

In 1996, the Company experienced its strongest theatre system sales in its 29-year history with signed contracts for 29 IMAX theatre systems. The value of contracts signed in 1996 was $89.6 million, a 39% increase over the previous record established in 1995 of $64.6 million.

The Company's commercial IMAX theatre business continues to expand, with commercial theatre signings representing 65% of all signings in 1996 compared to approximately 20% in the existing theatre network. The Company has entered into contracts with several major theatre chains around the world including Sony Theaters, Edwards Theaters, Cineplex Odeon and Famous Players in North America, and Gaumont and Bofiscope/UFA in Europe.

The Company's sales backlog increased to $131.8 million, a 23% increase from $107.2 million at the beginning of the year. At December 31, 1996, there were 45 theatre systems in backlog including three upgrades from IMAX to IMAX 3D.

The Company's international expansion continued with signings for new theatres in 1996 in Europe doubling over the level in the prior year. Since the opening of the Company's sales office in Singapore in late 1995, the Company has signed contracts for seven IMAX theatre systems and 13 IMAX *Ridefilm* systems in the Asia Pacific region.

In 1996, IMAX 3D theatre systems represented 75% of the Company's theatre system signings as compared to less than 20% of the existing theatre network. The number of IMAX 3D theatres in operation increased from 14 to 27 in 1996.

The Company opened nine new IMAX *Ridefilm* systems in 1996, signed contracts for 24 IMAX *Ridefilm* systems in 1996, and had 29 systems in backlog at December 31, 1996, including six upgrades.

The Company signed agreements for its first three owned and operated IMAX theatres in 1996 and opened its first theatre at the Luxor Las Vegas Hotel and Casino, in partnership with Circus Circus Enterprises.

Total revenues increased by 47% to $129.8 million in 1996 from $88.5 million in 1995. Systems revenue growth was 65% in 1996.

The Company delivered 23 IMAX theatre systems in 1996. There were 149 IMAX theatres in operation in 22 countries at December 31, 1996. There were 10 new 15/70-format films released in 1996, bringing the total to 125 films.

The company raised $78 million in net proceeds from a Convertible Notes offering in April 1996 and ended the year with a substantial cash position.

Business of the Company

Imax Corporation designs and manufactures projection and sound systems for giant-screen theatres based on proprietary and patented technology and is the largest producer and distributor of films for giant-screen theatres. The Company also designs and supplies custom attractions including motion simulation theatres for both large-scale attractions and smaller venues. The Company generally does not own IMAX theatres but leases its projection and sound systems and licenses use of its trademarks. The IMAX brand name enjoys widespread recognition with more than 500 million viewers throughout the world having experienced the Company's high-quality, giant-screen film attractions since 1970.

The IMAX theatre system network is the most extensive giant-screen theatre network in the world with 149 theatres operating in 22 countries and a backlog of 45 theatre systems under signed contracts as of December 31, 1996. IMAX theatre systems combine advanced high-resolution projection systems, sound systems and screens as large as eight stories high (approximately 80 feet) that extend to the edge of a viewer's peripheral vision to create highly realistic audio-visual experiences. As a result, audiences feel as if they are a part of the on-screen action in a way that is more intense and exciting than in traditional theatres. IMAX theatre systems are often a featured attraction at high-profile and prestigious locations such as the Smithsonian Institution's National Air and Space Museum, the Kennedy Space Center in Florida, the Museum of Science in Boston, the Sony IMAX theatre at Lincoln Square in New York, the Museum of Science and Industry in Chicago, and the theatre adjacent to Grand Canyon National Park. Additionally, IMAX theatres and films have been showcased by major entertainment companies such as Universal Studios, the Walt Disney Company and Caesars Palace, Inc.

The Company derives revenue principally from long-term theatre system lease agreements, maintenance agreements, film production agreements and from the distribution of films.

Theatre Systems

The Company generally provides its theatre systems on a long-term lease basis to customers. Lease agreements typically provide for three major sources of revenue: (*i*) upfront fees, (*ii*) ongoing royalty payments, and (*iii*) maintenance fees. The amount of upfront fees vary depending on the type of system and location and generally are paid to the Company in installments commencing on the signing of the agreement and continuing through the delivery of the theatre system. Ongoing royalty payments are paid monthly over the term of the contract, commencing after delivery. These payments are generally equal to the greater of a fixed minimum amount per annum and a percentage of box office receipts. An annual maintenance fee is generally payable commencing in the second year of theatre operations. Both minimum royalty payments and maintenance fees are typically indexed to the local consumer price index.

Sales and sales-type leases. / Revenues from the Company's theatre system sale agreements and from theatre system lease agreements which transfer substantially all of the benefits and risks of ownership ("sales-type leases") are recognized on the completed contract method (that is, upon delivery of the system). Revenues recognized at the time of the theatre system delivery consist of upfront fees and the present value of minimum royalties on sales-type leases. The timing of theatre system delivery is largely dependent on the timing of the construction and opening of the customer's theatre. Revenues recognized at the time of the theatre system delivery generally are derived from contracts signed 18 to 24 months prior to the date of recognition. Such revenue is shown as sales backlog until it is recognized upon delivery. Therefore, revenue for theatre systems is generally predictable on a long-term basis given the relationship to projected theatre system deliveries. However, systems revenue in any given quarter may vary significantly depending on the nature and timing of the delivery of systems.

Sales Backlog. / Sales backlog represents the minimum revenues on signed system sale and lease agreements that will be recognized as revenue as the associated theatre systems are delivered. The minimum revenue comprises the upfront fees plus the present value of the minimum royalties due under sales-type lease agreements. The value of sales backlog does not include revenues from owned and operated, partnership or joint venture theatres, letters of intent, IMAX *Ridefilm* system contracts, or long-term conditional theatre commitments.

Film Production

Revenue from films produced for third parties is recognized when the film is completed and delivered to the sponsor. The associated production costs are deferred and charged against the associated revenue when the revenue is recognized. The completion of films for third parties depends upon the contracted delivery dates with film sponsors. Thus, both film revenues and film income in any given period will vary significantly depending upon the timing of the completion of films. Film revenues and film income typically will be particularly high in a year when the Company provides

films for world's fairs. When the Company invests in films, costs incurred are deferred and shown on the balance sheet as film assets. Financing from pre-leases is shown as deferred revenue until the film is complete and delivered to the exhibitor. The film assets are amortized against revenues using the individual-film-forecast method in accordance with the Financial Accounting Standards Board Statement No. 53 ("FAS 53").

Film Distribution

Revenues from the distribution of films are recognized when films are exhibited by theatres. The costs associated with the distribution of films are charged as expenses using the individual-film-forecast method in accordance with FAS 53. The individual-film-forecast method amortizes film costs (reflected on the balance sheet as film assets) in the same ratio that current gross revenues bear to anticipated total gross revenues. Estimates of anticipated total gross revenues are reviewed quarterly by the Company and revised where necessary to reflect more current information.

Recurring Revenues

The Company's sources of revenue which are independent from the delivery of theatre systems and the completion of films for third parties include: royalties not subject to minimums, royalties in excess of minimum royalties and finance income on sales-type leases (collectively shown as "royalty revenue"), maintenance fees on systems, film distribution fees, film post-production fees, revenue from Company-operated theatres, and camera rentals. Royalty revenue, systems maintenance revenue and film distribution fees generally increase with the growth in the installed base of IMAX theatres. Film distribution revenue is also dependent on the acquisition of new film titles for distribution. Revenues from Company-owned theatres are dependent on the Company developing further theatres which it owns or has a participating interest in the theatre's revenue and/or profits. Revenues from post-production services are dependent on the number of theatres and the number of films in production. Camera rental revenue is dependent on the number of films in production.

International Operations

A significant portion of the Company's sales are made to customers located outside of the United States and Canada, primarily in the Far East and Europe. During 1994, 1995 and 1996, approximately 44.7%, 48.9%, and 39.5%, respectively, of the Company's revenues were derived from sales outside the United States and Canada. The Company expects that international operations will continue to account for a substantial portion of its revenues in future. In order to minimize exposure to exchange rate risk, the Company prices theatre systems (the largest component of revenues) in U.S. dollars except in Canada and Japan where they are priced in Canadian dollars and Japanese yen, respectively. Annual minimum royalty payments and maintenance fees follow a similar currency policy.

A substantial portion of the Company's revenues are denominated in U.S. dollars while a substantial portion of its costs and expenses are denominated in Canadian dollars. A portion of the net U.S. dollar flows of the Company are converted to Canadian dollars to fund Canadian dollar expenses, either through the spot market or through forward contracts. In Japan, the Company has ongoing operating expenses related to its operations. Net Japanese yen flows are converted to U.S. dollars generally through forward contracts to minimize currency exposure.

Acquisitions

The Company was formed March 1, 1994 as a result of an amalgamation between WGIM Acquisition Corp. and the former Imax Corporation ("Predecessor Imax"). WGIM acquired the common shares of Predecessor Imax and merged the Trumbull Company, Inc. ("TCI") into a wholly owned subsidiary of WGIM to form Ridefilm Corporation. The acquisitions have been accounted for using the purchase method of accounting.

The pro forma results of operations for the year ended December 31, 1994 represent the combined historical audited results of Predecessor Imax for the two months ended February 28, 1994 and the historical audited results of the Company for the ten months ended December 31, 1994 adjusted on a pro forma basis as if the acquisitions and senior notes and equity offerings had occurred on January 1, 1994. The results for the Company were affected in 1994, 1995 and 1996 and will also be affected in 1997 by certain purchase accounting adjustments as a result of the acquisitions. These adjustments, which were approximately $12.7 million in 1994, $2.5 million in 1995, and $1.8 million in 1996 are expected to be approximately $1.9 million in 1997.

Accounting Policies

The Company reports its results under both United States generally accepted accounting principles ("U.S. GAAP") and Canadian generally accepted accounting principles. The financial statements and results referred to herein are reported under U.S. GAAP.

Results of Operations

Year Ended December 31, 1996 versus Year Ended December 31, 1995

In 1996, the Company had revenues of $129.8 million and net earnings of $15.4 million ($1.01 per share) compared to revenues of $88.5 million and net earnings of $3.7 million ($0.23 per share) in 1995. The increase in revenues of 46.7% is due to higher systems revenue and other revenue. The substantial improvement in net earnings is principally due to higher systems revenue. In addition, the loss after tax on the Company's Ridefilm division decreased to $1.6 million ($0.11 per share) in 1996 from $3.3 million ($0.22 per share) in 1995. The non-recurring purchase accounting charges related to the acquisitions reduced net earnings in 1996 by $1.0 million ($0.07 per share) versus $1.4 million ($0.09 per share) in 1995.

Theatre Network and Sales Backlog

The IMAX theatre network increased to 149 theatres in operation at December 31, 1996 from 130 theatres at the beginning of the year. The Company recognized revenues on 26 theatre systems in 1996 versus 11 theatre systems in 1995. The theatre system deliveries included three upgrades from IMAX to IMAX 3D in 1996. Two theatre systems were delivered in 1996 under long-term contracts for theatres which will commence operations later.

The Company's theatre systems are located worldwide. The following is a geographic overview of the permanent and temporary IMAX theatres and theatres in backlog as of December 31, 1996:

	Existing Theatres		Including Backlog[1]	
	Theatres	Percent	Theatres	Percent
United States	71	48%	91	48%
Europe	23	15	34	18
Japan	18	12	19	10
Canada	15	10	16	8
Asia (excluding Japan)	9	6	13	7
Mexico	8	5	8	4
Australia	4	3	6	3
South Africa	1	1	1	1
South America	—	—	1	1
Middle East	—	—	1	—
Total	149	100%	190	100%

[1] Not included are three upgrades from IMAX to IMAX 3D, and one replacement of a 2D system.

The Company signed agreements for 29 theatre systems in 1996 which represents future minimum revenues of $89.6 million, a 39% increase over the value of permanent theatre signings of $64.6 million during 1995. The revenues from these theatre systems are expected to be recognized as revenues primarily in 1997 and 1998 as the theatre systems are delivered. Approximately 75% of the Company's theatre signings were for IMAX 3D systems compared to 58% in 1995. In addition, 65% of the Company's signings were for commercial locations versus 71% in 1995. As a result of the strong theatre signings, the Company's sales backlog increased by $24.6 million in 1996 to $131.8 million, a 23% increase from $107.2 million at December 31, 1995.

The following is a market and product overview of the IMAX theatres in operation and in backlog at December 31, 1996:

	Existing Theatres		Including Backlog[1]	
	Theatres	Percent	Theatres	Percent
Market:				
Science and Natural History	83	56%	13	32%
Commercial and Other	35	23	25	61
Theme Parks	21	14	1	2
Destination Sites	5	3	—	—
Zoos and Aquaria	4	3	2	5
Temporary	1	1	—	—
Total	149	100%	41	100%
Product:				
2D	122	82%	17	41%
3D	27	18	24	59
Total	149	100%	41	100%

[1] Not included are three upgrades from IMAX to IMAX 3D, and one replacement of a 2D system.

Film Library

Ten new films were released in the 15/70 format in 1996, increasing the total number of available films to 125. The Company owns the distribution rights to 44 of those films. In 1996, the Company released three new films: *Special Effects* (2D), *Cosmic Voyage* (2D), and *L5: First City In Space* (3D). *Special Effects* and *Cosmic Voyage* were both nominated for Academy Awards®.

The Company currently has two films in production, both for release in 1997. One of the films is a 3D film which will be distributed both in 2D and 3D. The other will be distributed only in 2D. In 1996, the Company completed two films in the IMAX *Ridefilm* format and began production on two films which are scheduled to be completed in 1997. The Company also has a number of projects in development. As of December 31, 1996 there were approximately eight films in the 15/70 format in production, including the two being produced by the Company.

Revenues

The Company's revenues in 1996 were $129.8 million, compared to $88.5 million in 1995, an increase of 46.7%. The following table sets forth the breakdown of revenue by category in thousands of dollars:

	Years ended December 31,		
	[illegible]	[illegible]	1996
Systems Revenue			
Sales and leases	$ 28,655	$ 39,389	$ 70,671
Royalties[1]	3,866	6,009	7,949
Maintenance	4,986	6,570	7,352
	[illegible]	[illegible]	85,972
Film Revenue			
Production	13,733	8,601	8,298
Distribution	12,808	15,332	13,422
Post-production	4,344	4,902	6,647
	[illegible]	[illegible]	28,367
Other Revenue	6,617	7,694	15,499
	[illegible]	[illegible]	$ 129,838

[1] Includes finance income.

Systems Revenues /Systems revenue increased from $52.0 million in 1995 to $86.0 million in 1996, an increase of 65.4%. Revenue from sales and leases increased from $39.4 million to $70.7 million, an increase of 79.4%. The Company recognized revenues on the delivery of 26 theatre systems under sales and sales-type leases in 1996 as compared to 11 theatre systems in 1995. The deliveries recognized in 1996 include three upgrades of theatre systems from IMAX to IMAX 3D and one settlement of a cancelled contract for a system for EXPO '96. In 1995, the Company recognized revenues on the settlement of three cancelled contracts for systems for EXPO '96. Royalty revenue and maintenance revenue increased 32.3% and 11.9%, respectively, over the prior year principally due to the increased number of theatre systems in the network.

Film Revenues /Film revenues decreased from $28.8 million in 1995 to $28.4 million in 1996. Decreases in film production and film distribution revenue were partially offset by an increase in film post-production revenue. One film was produced and released in each of 1996 and 1995. Film production revenue in 1995 also included settlements reached on two films to be produced for sponsors at EXPO '96 that were cancelled. Film distribution revenues were $13.4 million in 1996 compared to $15.3 million in 1995, a decrease of 12.5%. The decrease in revenue was principally due to the timing of release of new films later in the year in 1996. In 1995, *Destiny In Space* had a significant impact on revenues as 1995 was the film's first full year of release. Film post-production activities generated revenues of $6.6 million in 1996 versus $4.9 million in 1995, an increase of 35.6%. The growth in revenues was due to an increase in the number of post-production projects, an increase in the number of prints released and extensions of related products and services.

Other Revenues /Other revenues of $15.5 million in 1996 represented an increase of 101.4% over 1995. The growth in other revenues is primarily due to the delivery of seven IMAX *Ridefilm* systems in 1996 versus two in 1995. Camera rentals also increased in 1996 over the prior year due to the greater number of films in production.

Gross Margin

Gross margin in 1996 was $71.6 million versus $44.1 million in 1995. In 1996 gross margin as a percentage of sales was 55.1% versus 49.9% in 1995. Gross margin improved in 1996 over 1995 principally due to the higher number of systems deliveries and the higher proportion of systems revenue in 1996 (which is a higher margin revenue source than film and other revenues). Gross margin in 1996 and 1995 reflects non-recur-

ring purchase accounting charges of $1.9 million and $2.5 million, respectively, related to the acquisitions of Predecessor Imax and TCI.

Other Expenses

Selling, general and administrative expenses were $29.5 million in 1996 versus $25.9 million in 1995. The increase in selling, general and administrative costs in 1996 over 1995 resulted primarily from an increase in marketing and sales efforts in response to growing demand, the establishment of the owned and operated theatre business and litigation costs.

Research and development expenses were $2.5 million in 1996 versus $2.8 million in 1995. The decline in research and development expenses is the result of redirecting a portion of the Company's technical resources to capital projects.

Interest Income and Interest Expense

Interest income and interest expense increased by $2.4 million and $4.4 million over the prior year due to the issuance of $100 million of 5 3/4% Convertible Subordinated Notes in April 1996, a significant portion of the proceeds of which remained invested in cash and cash equivalents and marketable securities at year-end.

Foreign Exchange

Due to the continued growth of the Company's business outside of Canada and the additional U.S. dollar denominated financing raised by the Company in April 1996, the Company adopted the U.S. dollar as its functional currency commencing April 1, 1996. The Company experienced a foreign exchange loss of $0.3 million in 1996 principally due to fluctuations in the exchange rates on Japanese Yen and French Franc denominated cash balances and net investment in leases.

Taxes

In 1996, non-deductible goodwill amortization increased the effective rate of tax, while the manufacturing and processing profits deduction and the lower tax rates in foreign jurisdictions decreased the effective rate of tax, resulting in income tax expense in the statement of operations which approximates the statutory tax rate.

Minority Interest

Minority interest expense of $1.6 million in 1996 represents a 49% minority interest in the earnings of the Company's subsidiary, Sonics Associates Inc.

Year ended December 31, 1995 versus Year ended December 31, 1994

The following discussion compares the results of operations of the Company for the year ended December 31, 1995 to the combined pro forma results of operations of the Company for the year ended December 31, 1994.

Revenues

The Company's revenues in 1995 were $88.5 million, compared to $75.0 million in 1994, an increase of 18.0%.

Systems revenue increased from $37.5 million in 1994 to $52.0 million in 1995, an increase of 38.6%. Revenue from sales and leases was 37.5% higher than in 1994. Although the Company delivered 11 systems under sales and sales-type leases in 1995 as compared to 12 systems under sales and sales-type leases and one system under an operating lease in 1994, sales and lease revenues in 1995 were higher due to higher average value of contracts (due partially to the higher number of IMAX 3D systems delivered) and due to the settlement of three cancelled contracts for systems for EXPO '96 in 1995. Royalty revenue increased 55.4% and maintenance revenues increased 31.7% over the levels in 1994 due to growth in the theatre network.

Film revenues decreased from $30.9 million in 1994 to $28.8 million in 1995. This decrease is due to a decline in production revenue partially offset by an increase in both film distribution revenue and post-production revenue. The decline in production revenue from $13.7 million in 1994 to $8.6 million in 1995 resulted from a decline in the number of films delivered in 1995 versus 1994. Film distribution revenues were $15.3 million in 1995 compared to $12.8 million in 1994, an increase of 19.7%. The increase was primarily attributable to *Destiny In Space* which had significant licensing activity, playing in 51 theatres to the end of 1995 and delivering strong revenues in 1995. Film post-production activities generated revenues of $4.9 million in 1995 versus $4.3 million in 1994, an increase of 12.8%. The growth in revenues was due to an increase in the number of projects post-produced by the Company, an increase in the number of prints released and extensions of related products and services.

Other revenues of $7.7 million in 1995 represented an increase of 16.3% over other revenues in 1994 due to better performance at theatres managed by the Company and revenues from the first two IMAX *Ridefilm* systems installed in 1995.

Gross Margin

Gross margin for 1995 was $44.1 million versus $18.9 million in 1994. Gross margin in 1995 and 1994 reflects non-recurring purchase accounting charges related to the acquisitions of $2.5 million and $9.3 million, respectively. Excluding these non-recurring charges, gross margin improved in 1995 over 1994 due to the higher proportion of systems revenue and due to the settlement of systems and film contracts for the cancelled projects for EXPO '96.

Other

Selling, general and administrative expenses were $25.9 million in 1995 versus $22.0 million on a pro forma basis in 1994. Included in the 1994 and 1995 costs are $3.5 million and $4.3 million, respectively, of costs associated with the start-up of Ridefilm Corporation. The remaining increase of $3.1 million in 1995 was due to higher marketing, communications and promotion costs due to growth in activity level, expansion of the sales force, the opening of an office in Singapore and increased costs associated with the higher number of contract negotiations and contracts signed in 1995.

Research and development costs were $2.8 million in 1995 versus $4.6 million in 1994. The 1994 results include a non-recurring purchase accounting adjustment for the acquisition of Ridefilm relating to the write-off of $2.4 million of acquired in-process research and development.

The Company experienced a foreign exchange gain of $0.2 million in 1995 principally due to a decrease in the U.S. dollar exchange rate relative to the Canadian dollar which resulted in an unrealized foreign exchange gain of $1.8 million on the Senior Notes, partially offset by a $1.6 million unrealized foreign exchange loss on U.S. dollar denominated cash balances and net investment in leases. The effective tax rate shown in the statement of operations is higher than statutory rates primarily due to the amortization of goodwill which is not deductible for tax purposes.

Liquidity and Capital Resources

At December 31, 1996, the Company's principal source of liquidity included cash and cash equivalents of $102.6 million, trade accounts receivable of $18.0 million, long-term marketable securities of $18.1 million and the amounts receivable under contracts in backlog which are not yet reflected on the balance sheet.

In addition, the Company is party to an agreement with the Toronto-Dominion Bank with respect to a working capital facility. The Bank has made available to the Company a revolving loan in an aggregate amount up to Canadian $10 million or its U.S. dollar equivalent based on accounts receivable balances and levels of minimum contractual royalty payments. Loans made under the working capital facility bear interest at the prime rate of interest plus 1/4% per annum for Canadian dollar denominated loans and, for U.S. dollar denominated loans, at the U.S. base rate of interest established by the Bank plus 1/4%. These loans are repayable upon demand. At December 31, 1996, $6.3 million was available for use under this facility.

In April 1996, the Company completed a $100 million offering of 5 3/4% Convertible Subordinated Notes due 2003 on a private placement basis. These Notes are convertible into common shares of the Company at a conversion price of $42.812 per share (equivalent to a conversion rate of 23.3577 shares per $1,000 principal amount of Notes) and are redeemable at the option of the Company on or after April 1, 1999 at specified redemption prices plus accrued interest. The notes may only be redeemed by the Company between April 1, 1999 and April 1, 2001 if the last reported market price of the Company's common shares is equal to or greater than $60 per share for any 20 of the 30 consecutive trading days prior to the notice of redemption. The Company received net proceeds of approximately $97 million, after deducting underwriting discounts and financing expenses, and subsequently redeemed and repurchased certain outstanding privately held securities of the Company for $19.5 million cash.

The Company partially funds its operations through cash flow from operations. Under the terms of the Company's typical theatre system lease agreement, the Company receives substantial cash payments before it completes the performance of its obligations. Similarly, the Company typically receives cash payments for film productions in advance of related cash expenditures. These cash flows have generally been adequate to finance the ongoing operations of the Company.

Cash provided by operating activities amounted to $26.8 million for the year ended December 31, 1996 after the payment of $7.9 million of interest, $2.4 million of income taxes, and working capital requirements. Working capital requirements

in 1996 included an increase of $15.5 million in net investment in leases due to the increased number of theatre systems deliveries under sale-type lease contracts and a $3.8 million increase in inventories due to manufacturing activity related to systems in backlog scheduled for delivery in 1997 and IMAX *Ridefilm* systems. The increase in accounts receivable in 1996 was offset by a similar increase in accounts payable and accrued liabilities. Cash used in investing activities in 1996 was $48.5 million. Of this amount, $15.5 million was used to acquire capital assets, principally camera assets, motion simulation equipment and the Company's investment in an owned and operated theatre, $14.8 million was invested in film assets and $18.2 million was invested in marketable securities.

In the year ended December 31, 1995, cash flow from operations amounted to $4.0 million after the expenditure of $4.5 million on fully-sponsored film productions which had been funded in prior years, payment of $5.3 million of interest, $1.9 million of income taxes, and working capital requirements. Inventory increased $6.5 million to support the increased level of deliveries scheduled for 1996. In 1995, $4.9 million was used to acquire capital assets and $3.7 million was invested in film assets.

The Company believes that cash flow from operations together with existing cash balances and the working capital facility will be sufficient to meet cash requirements of its existing level of operations for the foreseeable future.

Auditors' report to shareholders

We have audited the consolidated balance sheets of Imax Corporation as at December 31, 1996 and 1995 and the consolidated statements of operations, shareholders' equity (deficit) and cash flows for the years ended December 31, 1996 and 1995, the ten month period ended December 31, 1994 (Successor Periods) and the two month period ended February 28, 1994 (Predecessor Period). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatements. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

As discussed in Note 2 to the consolidated financial statements, on March 1, 1994 Imax Corporation and all of its then existing subsidiaries were acquired by WGIM Acquisition Corp. in a business combination accounted for as a purchase. As a result of the acquisition, the consolidated financial information for the Successor Periods is presented on a different cost basis than that for the Predecessor Period and therefore is not comparable.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1996 and 1995 and the results of its operations and cash flows for the Successor and Predecessor Periods in accordance with United States generally accepted accounting principles.

Coopers & Lybrand

Chartered Accountants
Toronto, Ontario
February 13, 1997

Consolidated balance sheets
in accordance with United States generally accepted accounting principles
(In thousands of U.S. dollars)

	As at Dec. 31, 1996
Assets	
Current assets	
Cash and cash equivalents	$ 102,589
Accounts receivable	17,995
Current portion of net investment in leases (note 4)	4,218
Inventories and systems under construction (note 5)	21,292
Prepaid expenses	2,109
Total current assets	148,203
Long-term marketable securities	18,099
Net investment in leases (note 4)	34,494
Film assets (note 6)	19,050
Capital assets (note 7)	37,791
Deferred charges on debt financing	4,653
Deferred income taxes (note 15)	—
Goodwill (note 7)	46,454
Total assets	$ 308,744
Liabilities	
Current liabilities	
Accounts payable	$ 4,530
Accrued liabilities	16,677
Current portion of deferred revenue (note 8)	40,485
Current portion of long-term debt (note 9)	1,156
Income taxes payable	2,213
Total current liabilities	65,061
Long-term debt (note 9)	1,178
Deferred revenue (note 8)	14,117
Senior notes (note 10)	64,689
Convertible subordinated notes (note 11)	100,000
Deferred income taxes (note 15)	6,081
Total liabilities	251,126
Minority interest	1,593
Redeemable preferred shares (note 12)	1,184
Commitments and contingencies (notes 13 and 19)	
Shareholders' equity	
Capital Stock (note 12)	46,810
Retained earnings (deficit)	8,307
Cumulative translation adjustment	(276)
Total shareholders' equity	54,841
Total liabilities and shareholders' equity	$ 308,744

Approved on behalf of the Board

Director

Director

(the accompanying notes are an integral part of these consolidated financial statements)

Consolidated statements of operations
in accordance with United States generally accepted accounting principles

(In thousands of U.S. dollars except per share amounts)

	The Company			Predecessor Imax
	Year ended Dec. 31, 1996	Year ended Dec. 31, 1995	Ten months ended Dec. 31, 1994	Two months ended Feb. 28, 1994
Revenue				
Systems	$ 85,972	$ 51,968	$ 35,927	$ 1,454
Films	28,367	28,835	28,914	1,886
Other	15,499	7,694	5,810	800
	129,838	88,497	70,651	4,140
Costs and expenses	58,257	44,348	52,788	3,169
Gross margin	71,581	44,149	17,863	971
Selling, general and administrative expenses	29,495	25,925	19,690	2,245
Research and development	2,493	2,808	4,331	219
Amortization of intangibles	2,708	2,541	2,154	3
Earnings (loss) from operations	36,885	12,875	(8,312)	(1,496)
Interest income	5,797	3,377	1,767	19
Interest expense	(11,765)	(7,337)	(6,091)	(157)
Foreign exchange (loss) gain	(337)	193	(675)	(161)
Earnings (loss) before income taxes and minority interest	30,580	9,108	(13,311)	(1,795)
(Provision for) recovery of income taxes (note 15)	(13,579)	(5,458)	3,634	802
Earnings (loss) before minority interest	17,001	3,650	(9,677)	(993)
Minority interest	(1,593)	—	—	—
Net earnings (loss)	$ 15,408	$ 3,650	$ (9,677)	$ (993)
Per share data (note 12):				
Net earnings (loss)	$ 1.01	$ 0.23	$ (1.00)	
Weighted average number of shares outstanding (000s):	14,962	14,697	10,115	

(the accompanying notes are an integral part of these consolidated financial statements)

Consolidated statements of cash flow
in accordance with United States generally accepted accounting principles
(In thousands of U.S. dollars)

	The Company			Predecessor Imax
	Year ended Dec. 31, 1996	[illegible]	[illegible]	[illegible]
Cash provided by (used in):				
Operating Activities				
Net earnings (loss)	$ 15,408	[illegible]	[illegible]	[illegible]
Items not involving cash:				
Depreciation and amortization	12,685	[illegible]	[illegible]	[illegible]
Deferred income taxes	8,961	3,817	[illegible]	[illegible]
Minority interest	1,593			
Purchased research and development written off	—		[illegible]	
Amortization of discount on senior notes	1,863	[illegible]	[illegible]	
Unrealized foreign exchange losses	287	[illegible]	[illegible]	[illegible]
Other	(142)	[illegible]	[illegible]	
Changes in deferred revenue on film production	3,331	[illegible]	[illegible]	[illegible]
Changes in other operating assets and liabilities (note 16)	(17,211)	[illegible]	[illegible]	[illegible]
Net cash provided by (used in) operating activities	26,775	[illegible]	[illegible]	[illegible]
Investing Activities				
Increase in marketable securities	(18,164)	—	[illegible]	[illegible]
Increase in film assets	(14,822)	[illegible]	[illegible]	[illegible]
Purchase of capital assets	(15,543)	[illegible]	[illegible]	[illegible]
Acquisitions of Predecessor Imax and TCI (note 2)	—	—	[illegible]	
Net cash used in investing activities	(48,529)	[illegible]	[illegible]	
Financing Activities				
Repayment of long-term debt	(729)	[illegible]	[illegible]	[illegible]
Issue (repurchase) of senior notes	(4,919)		[illegible]	
Issue of convertible subordinated notes	100,000	—	—	—
Deferred charges on debt financing	(3,301)		[illegible]	
Issue of convertible preferred shares	—		[illegible]	
Common shares issued	2,038	[illegible]	[illegible]	
Common shares and warrants repurchased	(19,508)	[illegible]	[illegible]	
Share issue and financing costs	—		[illegible]	
Due from shareholders	—		[illegible]	
Net cash provided by (used in) financing activities	73,581	(1,332)	[illegible]	[illegible]
Effect of exchange rate changes on cash	15	(180)	17	[illegible]
Increase (decrease) in cash and cash equivalents during the period	51,842	[illegible]	[illegible]	[illegible]
Cash and cash equivalents, beginning of period	50,747	56,949	406	4,004
Cash and cash equivalents, end of period	$ 102,589	$ 50,747	$ 56,949	$ 406

(the accompanying notes are an integral part of these consolidated financial statements)

Consolidated statements of shareholders' equity (deficit) in accordance with United States generally accepted accounting principles

(In thousands of U.S. dollars)

	Number of Common Shares Issued and Outstanding	Capital Stock	Retained Earnings (Deficit)	Cumulative Translation Adjustment	Total Shareholders' Equity (Deficit)
Predecessor Imax					
[illegible]	5.755.160	$ 370	$ (2,662)	$ 1,176	$ (1,116)
[illegible]	–	—	(993)	—	(993)
[illegible]		—	—	(106)	(106)
[illegible]	[illegible].160	$ 370	$ (3,655)	$ 1,070	$ (2,215)
The Company					
[illegible]	—	$ —	$ —	$ —	$ —
[illegible]	[illegible]01.780	44.616	—	—	44,616
[illegible]	[illegible]85.148	24,021	—	—	24,021
[illegible]		(5,312)	—	—	(5,312)
[illegible]		434	—	—	434
[illegible]	—	—	(141)	—	(141)
[illegible]		—	(330)	—	(330)
[illegible]		—	(9,677)	—	(9,677)
[illegible]	—	—	—	(685)	(685)
[illegible]	14.086.928	63.759	(10,148)	(685)	52,926
[illegible]	701	18	—	—	18
[illegible]	(14,000)	(84)	—	—	(84)
[illegible]	–	353	—	—	353
[illegible]		—	(169)	—	(169)
[illegible]		—	(125)	—	(125)
[illegible]	—	—	3,650	—	3,650
[illegible]	—	—	—	917	917
[illegible]	14,076.629	64,046	(6,792)	232	57,486
Issuance of common stock	195,980	2,038	—	—	2,038
Common shares and warrants repurchased	(330,000)	(19,508)	—	—	(19,508)
Accrual of stock compensation benefit	—	234	—	—	234
Accrual of preferred dividends	—	—	(169)	—	(169)
Accretion of discount on preferred shares	—	—	(140)	—	(140)
Net earnings	—	—	15,408	—	15,408
Foreign currency translation adjustments	—	—	—	(508)	(508)
Balance at December 31, 1996	13,942,609	$ 46,810	$ 8,307	$ (276)	$ 54,841

(the accompanying notes are an integral part of these consolidated financial statements)

Notes to consolidated financial statements

For the years ended December 31, 1996 and 1995, the ten month period ended December 31, 1994 and the two month period ended February 28, 1994.

(Tabular amounts in thousands of U.S. dollars unless otherwise stated)

1. Description of the Business

Imax Corporation provides a wide range of products and services to the network of IMAX® theatres. At the end of 1996 there were 149 IMAX theatres in 22 countries located in commercial entertainment centers, major tourist destinations, theme parks, museums, science centers, and natural history institutions.

The principal activities of the Company are:

- the design, manufacture and marketing of proprietary projection and sound systems for IMAX theatres;
- the development, production and distribution of films shown in the IMAX theatre network;
- the design and supply of IMAX attractions hardware and films including motion simulation products; and
- the provision of other services to the IMAX theatre network including designing and manufacturing IMAX camera equipment for rental to filmmakers, providing film post-production image quality assurance and providing ongoing maintenance services for the IMAX projection and sound systems.

2. Acquisitions, Amalgamations and Unaudited Pro Forma Financial Information

[**a**] The Company was formed March 1, 1994 as the result of an amalgamation between WGIM Acquisition Corp. ("WGIM") and the former Imax Corporation ("Predecessor Imax"). WGIM was formed to consummate certain acquisitions which constituted the acquisition of all the common shares of Predecessor Imax, the merger of the Trumbull Company Inc. ("TCI") into a wholly owned subsidiary of WGIM to form Ridefilm Corporation ("Ridefilm"), and the acquisition of certain assets of Ridefilm Theatre Co. ("Ridefilm Co."), a partnership partially owned by TCI and one other general partner, and certain technology used by TCI and Ridefilm Co. WGIM has been indemnified for liabilities relating to Ridefilm's activities prior to the closing of the purchase and, pursuant to the terms of the acquisition agreement with the predecessor owner of TCI, will not be entitled to receive any amounts relating to Ridefilm's executed contracts which existed prior to the date of purchase.

The acquisitions of Predecessor Imax and TCI on March 1, 1994 have been accounted for as purchases and the assets acquired and liabilities assumed were recorded at their fair market values. The excess of the purchase price over the book value of the assets acquired has been allocated to assets and liabilities to record them at their respective fair values at March 1, 1994 as follows:

	Predecessor Imax	TCI
Tangible Assets:		
Inventories and systems under construction	$ 12,433	$ —
Net investment in leases	(534)	—
Film assets	2,181	—
Capital assets	411	—
In process research and development	—	2,437
Deferred income taxes	(4,081)	(750)
Accounts payable and accrued liabilities	(3,116)	—
Net deficit	(1,605)	—
	5,689	1,687
Intangible Assets:		
Goodwill	48,590	6,571
	$ 54,279	$ 8,258
Consideration:		
Cash	$ 48,724	$ 4,554
Class C redeemable preferred shares	926	—
Preferred shares subsequently converted into common shares	4,629	3,704
	$ 54,279	$ 8,258

Immediately after the acquisition, Predecessor Imax amalgamated into WGIM and continued under the name of Imax Corporation. In these financial statements, Company refers to the Company both before and after the acquisitions and amalgamations. Predecessor Imax refers to the Company for the period prior to the acquisition.

The consolidated financial statements for the period subsequent to February 28, 1994 present the financial position of the Company and its results of operations after the allocation of the purchase price for each of the Predecessor Imax and TCI acquisitions. The accompanying consolidated financial statements for the period ended February 28, 1994 do not include the effects of the acquisitions resulting from the purchase. Accordingly, the consolidated financial statements of Predecessor Imax are not comparable with the consolidated financial statements of the Company.

[b] Unaudited Pro Forma Financial Information

The following unaudited pro forma financial information for the year ended December 31, 1994 represents the combined historical audited results of Predecessor Imax for the two months ended February 28, 1994 and the historical audited results of the Company for the ten months ended December 31, 1994 adjusted on a pro forma basis to give effect to the issuance and sale of the Senior Notes, the application of the net proceeds therefrom, the acquisitions of Predecessor Imax and TCI, the conversion of preferred shares into common equity and the issuance of common shares as if they had occurred on January 1, 1994. The information is not necessarily indicative of the results that would have been attained had the transactions taken place on January 1, 1994.

Revenue	$ 75,009
Gross margin	18,891
Loss from operations	(10,247)
Net loss	(11,558)
Loss per share	$ (0.81)

3. Summary of Significant Accounting Policies

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates are related to film assets, capital assets, goodwill and contingencies. Actual results could be materially different from these estimates. Significant accounting policies are summarized as follows:

[a] Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries.

[b] Marketable securities

Investments in marketable securities categorized as available-for-sale securities are carried at fair value with unrealized gains or losses included in a separate component of shareholders' equity. Investments categorized as held-to-maturity securities are carried at amortized cost.

[c] Inventories

Inventories are carried at the lower of cost, determined on a first-in, first-out basis, or net realizable value. Finished goods and work-in-process include the cost of raw materials, direct labor and manufacturing overhead costs.

[d] Film assets

Film assets represent costs incurred in producing and distributing films net of accumulated amortization. The film costs are charged as expenses using the individual-film forecast method as prescribed by Statement of Financial Accounting Standards No.53 whereby film costs are amortized in the same ratio that current gross revenues bear to anticipated total gross revenues. Estimates of anticipated total gross revenues are reviewed quarterly by management and revised where necessary to reflect more current information.

The recoverability of film costs is dependent upon commercial acceptance of the films. Any capitalized costs of a film that are determined to be unrecoverable are charged to operations in the period in which that determination is made.

[e] Capital assets

Capital assets are stated at cost and are depreciated on a straight-line basis over their estimated useful lives as follows:

Projection equipment	10 to 15 years
Motion simulation equipment	5 years
Camera equipment	5 to 10 years
Buildings	20 to 25 years
Office and production equipment	5 years
Leasehold improvements	Over the 2 to 10 year term of the underlying leases

[f] Goodwill

Goodwill represents the excess purchase price of acquired businesses over the fair value of net assets acquired. Goodwill is amortized on a straight-line basis over its estimated life ranging from 10 to 25 years. The carrying value of goodwill is periodically reviewed by the Company and impairments are recognized in earnings from operations when the expected future operating cash flows derived from the acquired businesses are less than their carrying value.

[g] Deferred revenue

Deferred revenue comprises receipts under systems sales and lease contracts, film production contracts and film exhibition contracts not yet recognized as revenue. The current portion of deferred revenue represents the estimated amount to be recognized in earnings during the following 12 month period.

[h] Income taxes

Income taxes are accounted for under the asset and liability method whereby deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been recognized in the financial statements or tax returns. Deferred tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period in which the change occurs.

[i] Revenue and cost recognition

Sales and sales-type leases /Revenues from theatre system sales and leases which transfer substantially all of the benefits and risks of ownership to the customer ("sales-type leases") are recognized on the completed contract method (that is upon delivery of the system). Revenues include initial advance payments and contracted minimum rental payments discounted to their present value.

Cash receipts under initial advance payments are generally received in advance of deliveries and are recorded as deferred revenue. The associated costs are recorded as inventories and systems under construction. Upon delivery of the theatre system, the deferred revenue and deferred costs, net of residual value at the end of the lease term, are recognized in earnings.

The Company recognizes the present value of the minimum rentals on sales-type leases upon delivery of the theatre system. Cash receipts under minimum rental payments are received after delivery. Typically, ongoing rentals are received over the life of the system agreement and under any renewal periods. In the event of default of payment of minimum contracted rentals, the Company may repossess the system and refurbish it for resale. Royalties in excess of minimum rentals are recorded as revenue when due under the terms of the lease agreement.

Operating leases /Revenues from leases which do not transfer substantially all of the benefits and risks of ownership to the customer are treated as operating leases where revenues and direct expenses are recognized over the term of the lease and costs of leased assets are amortized over their estimated useful lives.

Film production revenues /Revenues from films produced for third parties are recognized when the film is completed and delivered to the sponsor. The associated production costs are deferred and subsequently charged to earnings when the film is delivered and the revenue is recognized.

[j] Research and development

Research and development expenditures are expensed as incurred.

[k] Foreign currency translation

Effective January 1, 1995, the Company adopted the U.S. dollar as its reporting currency since a majority of the Company's shareholders and debtholders are located in the United States. Comparative figures were restated as if the U.S. dollar had been the reporting currency in prior periods.

Effective April 1, 1996, the U.S. dollar was adopted as the Company's functional currency as a result of the continued growth of the Company's business outside of Canada and the additional U.S. dollar denominated financing raised by the Company in April 1996. Monetary assets and liabilities of the Company's operations which are denominated in currencies other than the U.S. dollar are translated into U.S. dollars at the exchange rates prevailing at the year end. Non-monetary items are translated at historical exchange rates. Revenue and expense transactions are translated at exchange rates prevalent at the transaction date. All exchange gains and losses are included in the determination of net earnings in the period in which they arise. The change in accounting policy has been applied prospectively and did not have a material impact on net earnings in the year ended December 31, 1996.

[l] Stock-based compensation

Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, became effective for the Company for the year ended December 31, 1996. This statement allows enterprises to continue to measure compensation cost for employee stock option plans using the methodology currently prescribed by APB Opinion No. 25, Accounting for Stock Issued to Employees. The Company elected to remain with the accounting in Opinion No. 25 and has made pro forma disclosures of net earnings and earnings per share in Note 12 as if the methodology prescribed by Statement No. 123 had been adopted.

4. Net Investment in Leases and Lease Payments Receivable

The Company enters into sales-type leases which have initial advance payments and annual rental payments with contracted minimums which are generally indexed with inflation. The Company's net investment in sales-type leases comprises:

	1996	1995
Total minimum lease payments receivable	$ 58,191	$ 35,655
Residual value of equipment	2,081	1,157
Unearned finance income	(21,560)	(13,299)
Present value of minimum lease payments	38,712	23,513
Less current portion	4,218	1,748
	$ 34,494	$ 21,765

The amounts are shown net of an allowance for doubtful accounts of $447,000 (1995 - $465,000)

Income recognized on systems from annual rental payments comprised the following:

	Year ended Dec. 31, 1996	Year ended Dec. 31, 1995	Ten months ended Dec. 31, 1994	Two months ended Feb. 28, 1994
Minimum rental payments on operating leases	$ 1,178	$ 1,230	$ 978	$ 107
Contingent rentals	3,892	2,982	1,519	197
Finance income	2,878	1,797	926	140
Total	$ 7,948	[illegible]	[illegible]	[illegible]

The estimated amount of minimum rental payments receivable from all signed leases for each of the next five years is as follows:

1997	$ 6,847
1998	9,202
1999	10,478
2000	11,587
2001	12,005

5. Inventories and Systems Under Construction

	1996	1995
Raw materials	$ 4,840	$ 3,408
Work-in-process	15,008	12,709
Finished goods	417	247
Acquired contracts in process	1,027	2,366
	$ 21,292	$ 18,730

Amortization of acquired contracts in process was charged against earnings from operations in the amount of $1,337,000 and $1,745,000 during the years ended December 31, 1996 and 1995 and $8,116,000 during the ten months ended December 31, 1994.

6. Film Assets

	1996	1995
Completed films, net of amortization	$ 12,730	[illegible]
Films in production	5,699	[illegible]
Acquired film rights, net of amortization	621	934
	$ 19,050	$ [illegible]

Amortization of the Company's investment in completed films has been charged against operations in the amount of $2,538,000 for the year ended December 31, 1996, $4,599,000 for the year ended December 31, 1995, $4,510,000 for the ten month period ended December 31, 1994, and $346,000 for the two month period ended February 28, 1994. Amortization of acquired film rights has been charged against operations in the amount of $312,000 and $512,000 for the years ended December 31, 1996 and 1995 and $704,000 for the ten month period ended December 31, 1994.

7. Capital Assets

	1996		
	Cost	Accumulated depreciation	Net book value
Equipment held for lease			
Projection equipment	$ 11,305	$ 3,859	$ 7,446
Motion simulation equipment	3,378	414	2,964
Camera equipment	7,239	1,739	5,500
	21,922	6,012	15,910
Assets under construction	3,355	—	3,355
Other capital assets			
Land	2,431	—	2,431
Buildings	11,500	1,331	10,169
Office and production equipment	10,194	4,351	5,843
Leasehold improvements	314	231	83
	24,439	5,913	18,526
	$ 49,716	$ 11,925	$ 37,791

	1995		
	Cost	Accumulated depreciation	Net book value
[illegible]			
[illegible]	$ 10,650	$ 2,442	$ 8,208
[illegible]	3,101	1,036	2,065
	13,751	3,478	10,273
[illegible]			
[illegible]	2,438	—	2,438
[illegible]	10,291	866	9,425
[illegible]	7,808	2,386	5,422
[illegible]	290	125	165
	20,827	3,377	17,450
	$ 34,578	$ 6,855	$ 27,723

Depreciation of capital assets amounted to $5,020,000 and $3,755,000 in the years ended December 31, 1996 and 1995, $3,080,000 in the ten month period ended December 31, 1994, and $431,000 in the two month period ended February 28, 1994.

The accumulated amortization of goodwill was $7,330,000 and $4,802,000 at December 31,1996 and 1995.

8. Deferred Revenue and Sales Backlog

	1996
Sales and leases	$ 43,926
Film production	5,840
Film distribution	1,442
Other	3,394
	54,602
Less: Current portion	40,485
	$ 14,117

At December 31, 1996, the Company's sales backlog totalled $131.8 million (December 31, 1995–$107.2 million), of which $37.6 million (December 31, 1995–$42.6 million) was included in deferred revenue. Sales backlog represents the minimum revenues on signed system sale and lease agreements that will be recognized as revenue generally over the following two years as theatre systems are delivered.

9. Long-Term Debt

	1996
[a] Mortgage due 1997	$ 478
[b] Mortgage on U.S. manufacturing facility due 2003	774
[c] Term financing for film production due 1999	1,082
	2,334
Less: Current portion	1,156
	$ 1,178

[a] Mortgage due 1997 repayable monthly, bearing interest at 5.6%. Certain land with a book value of $481,000 has been pledged as collateral.

[b] Mortgage due May 2003 repayable monthly, bearing interest at 8.25%. Certain land and a building with a book value of $938,000 have been pledged as collateral.

[c] Term financing due 1999 repayable quarterly bearing interest at 9.45%. The term financing is guaranteed by a third party. The Company has pledged second mortgages on its office building and manufacturing facility as collateral for the guarantor.

[d] Scheduled repayments of long-term debt are as follows:

1997	$ 1,156
1998	580
1999	136
2000	122
2001	133
Thereafter	207
	$ 2,334

[e] The Company has unused lines of credit amounting to Canadian $6.3 million, or the equivalent in U.S. dollars. No commitment fees are payable on these lines of credit.

[f] Interest expense on long-term debt was $199,000 for the year ended December 31, 1996, $282,000 for the year ended December 31, 1995, $316,000 for the ten month period ended December 31, 1994, and $156,000 for the two month period ended February 28, 1994.

10. Senior Notes

The Senior Notes due March 1, 2001 were issued in March 1994 and had an aggregate principal amount of U.S. $70,000,000. The Senior Notes were issued at a discount from their principal amount for net proceeds of $64,670,000. During 1996, the Company repurchased and cancelled Senior Notes with a face value of $5,000,000 at a cost of $4,919,000. On March 1, 1997, the accreted value will be equivalent to the principal amount of the Senior Notes outstanding of $65,000,000.

The Senior Notes bear interest at 7% per annum to and including March 1, 1997 and 10% per annum thereafter with interest payable in arrears on March 1 and September 1. The Senior Notes are the senior obligations of the Company, ranking senior in right of payment to all subordinated indebtedness of the Company, and pari passu in right of payment to all senior indebtedness of the Company.

Interest expense related to the Senior Notes was $6,621,000 during the year ended December 31, 1996, $6,642,000 during the year ended December 31, 1995 and $5,423,000 during the ten month period ended December 31, 1994. Amortization of deferred financing costs was $414,000 for the year ended December 31, 1996, $413,000 for the year ended December 31, 1995 and $342,000 for the ten month period ended December 31, 1994.

The Senior Notes are subject to redemption by the Company, in whole or in part, at any time on or after March 1, 1998 at specified redemption prices, together with interest accrued thereon to the redemption date.

The Senior Notes indenture contains covenants that, among other things, limit the ability of the Company and certain subsidiaries to incur additional indebtedness, pay dividends or make other distributions, make certain loans and investments, enter into asset sales, create liens, enter into certain sale-leaseback transactions, enter into certain transactions with affiliates, liquidate, or merge, consolidate or transfer substantially all their respective assets.

11. Convertible Subordinated Notes

In April 1996, the Company issued $100 million of Convertible Subordinated Notes due April 1, 2003 bearing interest at 5 3/4% payable in arrears on April 1 and October 1. The Notes, subordinate to present and future senior indebtedness of the Company, are convertible into common shares of the Company at a conversion price of $42.812 per share (equivalent to a conversion rate of 23.3577 shares per $1,000 principal amount of Notes) at any time prior to maturity.

Interest expense related to the Convertible Subordinated Notes was $4,159,000 during the year ended December 31, 1996. Amortization of deferred financing costs was $356,000 for the year ended December 31, 1996.

The notes are redeemable at the option of the Company on or after April 1, 1999 at specified redemption prices plus accrued interest; however, the notes may only be redeemed by the Company between April 1, 1999 and April 1, 2001 if the last reported market price of the Company's common shares is equal to or greater than $60 per share for any 20 of the 30 consecutive trading days prior to the notice of redemption.

12. Capital Stock and Redeemable Preferred Shares

[a] Authorized

The authorized capital of the Company consists of an unlimited number of common shares and an unlimited number of Class C preferred shares issuable in two series.

The following is a summary of the rights, privileges, restrictions and conditions of each of the classes of shares.

Common Shares /The holders of common shares are entitled to receive dividends if, as and when declared by the directors of the Company, subject to the rights of the holders of any other class of shares of the Company entitled to receive dividends in priority to the common shares.

The holders of the common shares are entitled to one vote for each common share held at all meetings of the shareholders.

Redeemable Class C preferred shares, Series 1 /The holders of Class C shares are entitled to a cumulative dividend at the rate of 7% per annum on the Class C issue price of $100 per share. These dividends shall accrue from the issue date but shall not be declared or paid prior to the third anniversary date of the issue date. Dividends on the Class C shares are to be paid in priority to dividends payable to the holders of the common shares.

If on any anniversary date of the issue date, after the third such anniversary date, the Class C cumulative dividends to be paid on such date are not paid and such dividends were required to have been paid pursuant to certain conditions, then the rate at which Class C cumulative dividends shall accrue thereafter will increase by 1% per annum to a maximum dividend rate of 10% per annum until all Class C cumulative dividends have been paid as required, at which time the dividend rate will revert to 7% per annum.

The Class C shares are redeemable at the option of the Company at any time in whole, or from time to time in part, in each case for an amount equal to the Class C issue price plus all accrued and unpaid dividends to, but not including, the date of such redemption. The Class C shares are to be redeemed in whole on September 1, 2002.

Except as otherwise required by law, the holders of Class C shares Series 1 are not entitled to vote at any meeting of the shareholders.

Redeemable Class C preferred shares, Series 2 /The Class C–Series 1 preferred shares may be converted at any time in whole upon a resolution of the directors of the Company into the same number of Class C–Series 2 preferred shares. The Series 2 shares shall be identical to the Series 1 shares except that the holders of Series 2 shares will be entitled to such number of votes as the directors determine subject to a maximum of 6% of the votes attaching to all voting shares of the Company outstanding immediately following the conversion.

[b] Changes during the period

In 1996, the Company issued 193,480 common shares pursuant to the exercise of stock options for cash proceeds of $2,001,000 and 2,500 shares were issued under the terms of an employment contract with an ascribed value of $37,000. The Company repurchased 330,000 common shares and all of the outstanding warrants of the Company from certain officers and directors of the Company for $19,508,000 in cash.

In 1995, the Company issued 3,701 common shares pursuant to the exercise of stock options for cash proceeds of $18,000 and acquired 14,000 common shares for cancellation at a cash cost of $84,000.

In connection with the acquisitions of Predecessor Imax and TCI in 1994, the Company issued $741,000 of common shares and $17,778,000 of preferred shares with common share warrants. In June 1994, the Company issued 3,250,000 common shares in an initial public offering for cash proceeds of $43,875,000. In addition, the holders of the certain classes of preferred shares exercised their warrants and conversion privileges in exchange for 9,285,148 common shares with an ascribed value of $24,021,000.

[c] Shares held by the Company

As at December 31, 1996, 330,000 issued common shares are held by the Company for other than retirement.

[d] Stock options and warrants

The Company has reserved a total of 2,567,594 common shares for future issuance as follows:

[*i*] 414,372 common shares have been reserved for issuance pursuant to stock options granted in connection with the employment of Douglas Trumbull, Vice Chairman of the Company, at an exercise price of Canadian $0.65 per share and expire on September 1, 2002. These options will be fully vested on March 1, 1997.

[*ii*] 40,304 common shares have been reserved for issuance pursuant to stock options granted at an exercise price of Canadian $3.19 which vest over a five-year period and expire on April 8, 2004. At December 31, 1996, options in respect of 7,000 common shares were vested and exercisable.

[*iii*] 2,112,918 common shares have been reserved for issuance under the Employee Stock Option Plan, of which options in respect of 1,063,400 common shares are outstanding at December 31, 1996. The options granted under the Employee Stock Option Plan generally vest over a five year period and expire 10 years from the date granted. As at December 31, 1996, options in respect of 448,100 common shares were vested and exercisable.

	Share options			Average option price per share		
	1996	1995	1994	**1996**	1995	[illegible]
Options outstanding, beginning of year	1,004,900	557,500	—	$ 13.72	[illegible]	[illegible]
Granted	240,500	553,500	557,500	30.93	[illegible]	[illegible]
Exercised	(175,400)	(600)	—	12.98	[illegible]	[illegible]
Cancelled or expired	(6,600)	(105,500)	—	13.54	[illegible]	[illegible]
Options outstanding, end of year	1,063,400	1,004,900	557,500	$ 17.98	[illegible]	[illegible]

The weighted average fair value of common share options granted in 1996 is $304,000. The fair value of common share options granted is estimated at the grant date using the Black-Scholes option-pricing model with the following assumptions: dividend yield of 0%, a risk-free interest rate of 6%, expected life of the options ranging from two to five years and expected volatility of 40%.

The following table summarizes certain information in respect of options outstanding under the Employee Stock Option Plan as at December 31, 1996:

Range of exercise prices	Outstanding	Vested	Average Exercise Price	Average Remaining Term
$9.25-$19.99	798,400	429,100	$ 13.99	8 years
$20.00-$29.99	66,000	11,000	22.07	9 years
$30.00-$36.00	199,000	8,000	32.65	9 1/2 years
Total	1,063,400	448,100	$ 17.98	8 1/3 years

[e] Redeemable Preferred Shares

As at December 31, 1996 and 1995, there were 33,333 Class C Series 1 redeemable preferred shares issued and outstanding. Cumulative dividends payable on the Class C Series 1 redeemable preferred shares amounted to $483,000 at December 31, 1996 (December 31, 1995 - $311,000).

[f] Earnings per Share

In deriving the net earnings (loss) available to common shareholders, the net earnings (loss) for the period has been decreased (increased) for the accretion and cumulative dividends on preferred shares. If the methodology prescribed by Financial Accounting Standards No.123, Accounting for Stock-Based Compensation had been adopted by the Company, pro forma net earnings would have been $15,059,000 ($0.99 per share) and $2,872,000 ($0.18 per share) for the years ended December 31, 1996 and 1995, respectively.

13. Lease Commitments

The Company is committed to total minimum rental payments under operating leases for premises as follows:

1997	$ 921
1998	892
1999	806
2000	800
2001	761

Rent expense was $1,161,000 for the year ended December 31, 1996, $944,000 for the year ended December 31, 1995, $665,000 for the ten month period ended December 31, 1994, and $116,000 for the two month period ended February 28, 1994.

14. Government Assistance

A portion of the Company's research activities which relate to 3D motion pictures is eligible for government grants. Government grants have been credited against research and development expense in the amount of $324,000 during the year ended December 31, 1996, $302,000 during the year ended December 31, 1995, $454,000 during the ten month period ended December 31, 1994 and $63,000 during the two month period ended February 28, 1994.

15. Income Taxes

[**a**] Earnings (loss) before income taxes and minority interest by tax jurisdiction comprise the following:

	Year ended Dec. 31, 1996
Canada	$ 32,461
United States	3,308
Japan	(5,351)
Other	162
Total	$ 30,580

[**b**] The (provision for) recovery of income taxes comprise the following:

	Year ended Dec. 31, 1996	Year ended Dec. 31, 1995	Ten months ended Dec. 31, 1994	Two months ended Feb. 28, 1994
Current	$ (4,618)	$ (1,641)	$ (1,450)	$ 32
Deferred	(8,961)	(3,817)	5,084	770
Total	$ (13,579)	$ (5,458)	$ 3,634	$ 802

[**c**] The provision for income taxes differs from the amount that would have resulted by applying the combined Canadian federal and Ontario provincial statutory income tax rates (44.62%) to earnings as described below:

	Year ended Dec. 31, 1996	Year ended Dec. 31, 1995	Ten months ended Dec. 31, 1994	Two months ended Feb. 28, 1994
Income tax (expense) recovery at combined statutory rates	$ (13,644)	$ (4,039)	$ 5,902	$ 796
(Increase) decrease resulting from:				
Non-deductible expenses, including amortization of intangibles	(1,519)	(929)	(1,469)	15
Manufacturing and processing profits deduction	977	—	—	—
Large corporations tax	(275)	(146)	(340)	—
Income tax at different rates in foreign and other provincial jurisdictions	701	(785)	(506)	(33)
Other	181	441	47	24
Income tax (expense) recovery	$ (13,579)	$ (5,458)	$ 3,634	$ 802

[**d**] The deferred income tax asset (liability) consists of:

	1996	1995
Net operating loss carry forwards	$ 4,318	$ 4,261
Investment tax credit carry forwards	4,529	4,267
Asset write downs	800	831
Recognition of income on systems deliveries on a tax basis different than for financial reporting	(31,827)	(14,263)
Excess book over tax depreciation and amortization	17,507	9,505
Other	864	377
	(3,809)	4,978
Valuation allowance	(2,272)	(2,244)
	$ (6,081)	$ 2,734

16. Consolidated Statements of Cash Flow

	Year ended Dec. 31, 1996
Changes in other operating assets and liabilities were as follows:	
Decrease (increase) in:	
Accounts receivable	$ (7,940)
Net investment in leases	(15,499)
Inventories and systems under construction	(3,761)
Prepaid expenses	420
Increase (decrease) in:	
Accounts payable	1,446
Accrued liabilities	5,633
Income taxes payable	1,964
Other deferred revenue	526
	$ (17,211)
Cash payments made during the period on account of income taxes	$ 2,395
Interest paid during the period	$ 7,872

17. Segmented Information

The Company operates primarily in two industries: the design, manufacture and sale or lease of projection systems and the production and distribution of films. Inter-segment transactions are not significant.

	Year ended Dec. 31, 1996	Year ended Dec. 31, 1995	Ten months ended Dec. 31, 1994	Two months ended Feb. 28, 1994
Revenue				
Systems	$ 85,972	$ 51,968	$ 35,927	$ 1,454
Films	28,367	28,835	28,914	1,886
Other	15,499	7,694	5,810	800
	$ 129,838	$ 88,497	$ 70,651	$ 4,140
Earnings (loss) from operations				
Systems	$ 45,224	$ 23,193	$ 4,212	$ (547)
Films	7,965	7,226	2,293	(102)
Other	(1,101)	(5,759)	(5,896)	(4)
Corporate overhead and research and development	(15,203)	(11,785)	(8,921)	(843)
	$ 36,885	$ 12,875	$ (8,312)	$ (1,496)
Amortization				
Systems	$ 6,781	$ 7,192	$ 12,455	$ 267
Films	2,954	5,205	5,271	357
Other	2,950	1,168	1,180	156
	$ 12,685	$ 13,565	$ 18,906	$ 780
Capital expenditures				
Systems	$ 3,406	$ 3,942	$ 614	$ 836
Films	76	254	87	19
Other	12,061	772	1,582	31
	$ 15,543	$ 4,968	$ 2,283	$ 886

Earnings (loss) from operations and depreciation and amortization include non-recurring adjustments of $1,858,000 for the year ended December 31, 1996, $2,512,000 for the year ended December 31, 1995 and $10,369,000 for the ten month period ended December 31, 1994 and amortization of intangibles of $2,708,000 and $2,541,000 for the years ended December 31, 1996 and 1995 and $2,154,000 for the ten month period ended December 31, 1994. The loss from operations for the ten month period ended December 31, 1994 also includes a write-off of acquired research and development of $2,437,000.

	1996
Identifiable Assets	
Systems	$ 146,835
Films	23,729
Corporate and Other	138,180
	$ 308,744

Revenue by geographic area comprises:

	Year ended Dec. 31, 1996
Canada	$ 27,740
United States	50,852
Europe	25,567
Japan	17,350
Other	8,329
	$ 129,838

18. Financial Instruments

From time to time the Company engages in hedging activities to reduce the impact of fluctuations in foreign currencies on its profitability and cash flow. The credit risk exposure associated with these activities would be limited to all unrealized gains on contracts based on current market prices. The Company believes that this credit risk has been minimized by dealing with highly rated institutions.

To fund Canadian dollar operating costs in 1997, the Company had entered into forward exchange contracts as at December 31, 1996 to hedge the conversion of $17.5 million of its cash flow into Canadian dollars at an average exchange rate of Canadian $1.37 per U.S. dollar. In addition, the Company had entered into forward exchange contracts as at December 31, 1996 to hedge the conversion of 275 million Yen of its cash flow in 1997 into U.S. dollars at an average exchange rate of 108 Yen per U.S. dollar.

The Company has also entered into foreign currency swap transactions to hedge minimum lease payments receivable under sales-type lease contracts denominated in Japanese Yen and French Francs. These swap transactions fix the foreign exchange rates on conversion of 196 million Yen at 98 Yen per U.S. dollar through September 2004 and on 19.3 million Francs at 5.1 Francs per U.S. dollar through September 2005.

The estimated fair values of the Company's financial instruments at December 31, 1996 are summarized as follows:

	Carrying amount	Estimated fair value
Cash and cash equivalents	$ 102,589	$ 102,589
Long-term marketable securities	18,099	18,099
Long-term debt	2,334	2,334
Senior notes	64,689	66,138
Convertible subordinated notes	100,000	93,500
Foreign currency contracts	459	143

The carrying amount of cash and cash equivalents approximates fair value due to the short maturity of these instruments. Long-term marketable securities, which principally represent investments in corporate bonds maturing through February 1999, have been categorized as available-for-sale securities and are carried at estimated fair value. The fair values of the Company's long-term debt, Senior Notes and Convertible Notes are estimated based on quoted market prices for similar issues or on the current rates offered to the Company for debt of the same remaining maturities. The fair value of foreign currency contracts held for hedging purposes represents the estimated amount the Company would receive to terminate the agreements, taking into consideration current exchange rates and the credit worthiness of the counterparties.

19. Contingencies

[**a**] In April 1994, Compagnie France Film Inc. filed a claim against the Company in the Superior Court in the District of Montreal, in the Province of Quebec, alleging breach of contract and bad faith in respect of an agreement which the Plaintiff claims it entered into with the Company for the establishment of an IMAX theatre in Quebec City, Quebec, Canada. Until December 1993, Predecessor Imax was in negotiations with the Plaintiff and another unrelated party for the establishment of an IMAX theatre in Quebec City. In December 1993, Predecessor Imax executed a system lease agreement with the other party. During the negotiations, both parties were aware of the other party's interest in also establishing an IMAX theatre in Quebec City. The Plaintiffs are claiming damages of Canadian $4.6 million, representing the amount of profit they claim they are denied due to their inability to proceed with an IMAX theatre in Quebec City, together with expenses incurred in respect of this project and pre-judgment interest. The Company disputes this claim and has filed a defense in response.

Compagnie France Film had also incorporated a shell company, 3101–8450 Quebec Inc. ("3101"). 3101 was to, among other things, enter into a lease for the proposed IMAX theatre site. In November 1993, while negotiations between Compagnie France Film and the Company were still ongoing, 3101 entered into a lease for the site. 3101 defaulted on the lease and the landlord sued 3101 in an unrelated action to which the Company was not a party. In February 1996, 3101 was found liable to pay the landlord damages in the amount of Canadian $2.5 million. Subsequent to that judgment 3101 intervened in the lawsuit between Compagnie France Film and the Company in order to claim from the Company damages in the amount of Canadian $2.5 million.

The Company believes that it will be successful in its defense of these claims and the ultimate loss, if any, will not have a material impact on the financial position or results of operations of the Company, although no assurance can be given with respect to the ultimate outcome of this litigation.

[**b**] On February 26, 1996, Iwerks Entertainment Inc. filed a complaint against the Company alleging violations under the Sherman Act, the Clayton Act, tortious interference with contracts and prospective economic advantage, and unfair competition. The plaintiff is seeking unquantified damages, injunctive relief and restitution. The Company has filed an answer denying the material allegations of the complaint and intends to vigorously defend this action. The amount of the loss, if any, cannot be determined at this time.

[c] On March 4, 1996, World Odyssey, Inc. and Showscan Entertainment Inc. ("Showscan") filed a complaint against the Company in the U.S. District Court for the Central District of California, alleging violations under the Sherman Act, the Clayton Act, the Lanham Act, common law unfair competition, trade libel, false and misleading advertising and claiming unspecified damages in excess of $15 million before trebling, preliminary and permanent injunctions. The Company has filed an answer denying the material allegations of the complaint and intends to vigorously defend this action. The amount of the loss, if any, cannot be determined at this time.

[d] In January 1996, the Company brought suit against Showscan in the U.S. District Court for the Southern District of New York. The complaint alleges trademark infringement, trademark dilution, unfair competition and related causes of action arising from the proposed use by Showscan of the SHOWMAX mark. Showscan, in its initial answer, alleged numerous defenses, including allegations of violation of the antitrust laws. This suit is scheduled to go to trial this year, assuming motions do not result in a dispositive ruling by the Court. On February 3, 1997, the Company was advised that Showscan may seek to amend its answer by adding affirmative defenses and a counterclaim alleging that the IMAX® mark has become a generic term and that its United States registration for this mark should be cancelled. If the proposed amendment is allowed the Company will vigorously contest the allegations made by Showscan. The amount of the loss, if any, cannot be determined at this time.

[e] On or about February 10, 1997, Showscan filed a complaint against the Company in the U.S. District Court for the Central District of California. The complaint served on February 12, 1997 seeks cancellation of the Company's U.S. registration of the IMAX® trademark based on allegations that the trademark has become a generic term and has been used in violation of the anti-trust laws. In addition Showscan alleges interference with economic relationships with customers and others and is seeking $5 million in damages as well as punitive and exemplary damages and cancellation of the Company's mark. Showscan also seeks a declaratory judgment that SHOWMAX does not infringe upon any trademark of the Company and contends that the suffix "MAX" is descriptive and not a protectable trademark. The Company intends to vigorously contest this action. The amount of the loss, if any, cannot be determined at this time.

In addition to the litigation described above, the Company is currently involved in other litigation which, in the opinion of the Company's management, will not materially affect the Company's financial position or future operating results, although no assurance can be given with respect to the ultimate outcome for any such litigation.

20. Defined Contribution Plan

The Company maintains defined contribution employee savings plans (the "Employee Plans") for its employees, including its executive officers. The Company makes contributions to the Employee Plans on behalf of its employees in an amount equal to five per cent of their base salary. The Company contributed an aggregate of $587,000 and $545,000 during the years ended December 31, 1996 and 1995, $480,000 during the ten month period ended December 31, 1994 and $74,000 during the two month period ended February 28, 1994.

21. Related Party Transactions

During 1996, the Company repurchased 330,000 common shares and all outstanding warrants of the Company from certain individuals who are also directors and officers of the Company for $19.5 million in cash.

In 1994, the Company paid $1,300,000 in fees for services rendered in connection with the acquisitions of Predecessor Imax and TCI to Wasserstein Perella & Co., Inc. and $2,300,000 in fees for services rendered in connection with the Senior Notes offering to Wasserstein Perella Securities, Inc. Wasserstein Perella & Co., Inc. and Wasserstein Perella Securities, Inc. are affiliates of Wasserstein Perella Partners, L.P., Wasserstein Perella Offshore Partners, L.P., and WPPN, Inc., each of which is a holder of common shares.

During the ten month period ended December 31, 1994, in consideration for consulting and advisory services and the provision of the services of Bradley J. Wechsler as interim chief executive officer of the Company, the Company paid $750,000 to an entity controlled by Mr. Wechsler, an officer and director. In this period, the Company made a one-time payment of $1,084,000 representing an acceleration of management fees triggered by the Company having gone public, to an entity controlled by Messrs. Wechsler and Gelfond, both of whom are officers and directors of the Company.

During the ten month period ended December 31, 1994, the Company paid legal fees of $550,000 to a law firm in which two directors are partners for legal services rendered in connection with the initial public offering and the acquisitions of Predecessor Imax and TCI.

22. Impact of Recently Issued Accounting Standards

New accounting standards issued but not effective would not have a material impact on the Company's financial statements.

Share Listing: **Trading Symbol**
NASDAQ: **IMAXF**
TSE: **IMX**

Corporate Headquarters
Imax Corporation
2525 Speakman Drive
Sheridan Science and Technology Park
Mississauga, Ontario
L5K 1B1
Telephone
(905) 403-6500
Fax
(905) 403-6450
E mail
info@imax.com
Web site
www.imax.com

Transfer Agents
Chemical Mellon
Shareholder Services
450 West 33rd Street
New York, NY
10001-2697
Montreal Trust
151 Front Street West
Toronto, Ontario
M5J 2N1

Investor Communications
Victoria Dinnick
(905) 403-6366
(Shareholders/Media)

Investor Relations
Brian E. Weisfeld
(212) 821-0121
(Analysts)

Auditors
Coopers & Lybrand

Annual Meeting Date
May 6, 1997

Directors

Bradley J. Wechsler*
Chairman, Co-CEO
Richard L. Gelfond
Vice Chairman, Co-CEO
John M. Davison
Executive Vice President, Operations and CFO
I. Graeme Ferguson
Director
Michael Fuchs
Director
Garth M. Girvan*
Director, Partner of McCarthy Tétrault
Murray B. Koffler
Director, Honorary Chairman Shoppers Drug Mart
Philip C. Moore*
Director, Partner of McCarthy Tétrault
Miles Nadal*
Director, President and CEO MDC Corporation
Marc A. Utay
Director, Managing Director Wasserstein Perella and Co. Inc.

* Member of the Audit Committee

Officers

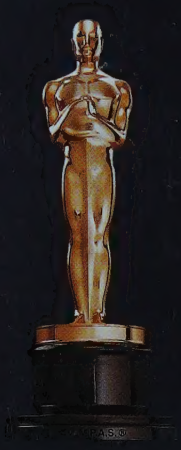
Bradley J. Wechsler
Chairman, Co-CEO
Richard L. Gelfond
Vice Chairman, Co-CEO
John M. Davison
Executive Vice President, Operations and CFO
Gregory J. Breen
President, IMAX Theatres
Peter J. Chilibeck
Sr. Vice President, Legal Affairs and General Counsel
Andrew Gellis
Sr. Vice President, Film
Michael A. Gibbon
Sr. Vice President, Technology
Christian Jörg
Sr. Vice President, COO IMAX Attractions
David Keighley
Vice President and President, David Keighley Productions Ltd.
Alfred S. Newman
Sr. Vice President, Worldwide Communications
Michael M. Davies
Vice President and Corporate Controller
Jennifer Rae
Vice President, Affiliate Relations
G. Mary Ruby
Secretary and Vice President, Legal Affairs

Photography by:
Louis Psihoyos
MacGillivray Freeman Films
John Madere
The Millenium Group
Tatiana Markow
Studio West
Sony Music Entertainment (Japan) Inc.
Joel Bernard
Immersive Entertainment Inc.
Dentsu Prox Inc.
WGBH Education
NASA
Brian Smale
François Robert

Design:
Atlanta Incorporated

Printed in Canada by:
Arthurs Jones Inc.

Imax was honored to receive this year's sole Oscar® for Scientific and Technical Achievement from the Academy of Motion Picture Arts and Sciences. This Academy Award® recognizes Imax's innovations in creating the world's best theatrical projection system, as well as Imax's acceptance as part of the entertainment industry's mainstream.



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